

THE ANNUAL FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

2006

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INDEPENDENT AUDITOR'S REPORT TO THE SEIMAS OF THE REPUBLIC OF LITHUANIA

We have audited the accompanying 2006 financial statements of the Bank of Lithuania ("the Bank"), which comprise the balance sheet as at 31 December 2006, the statement of income for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles of the Bank of Lithuania. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.


An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.


Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank of Lithuania as of 31 December 2006, and of its financial performance for the year then ended in accordance with the accounting principles adopted by the Bank of Lithuania. In our opinion, the accounting principles adopted by the Bank of Lithuania comply in all material respects with the Law on the Bank of Lithuania.

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The audit was completed on 15 March 2007.

BALANCE SHEET OF THE BANK OF LITHUANIA

LTL million

	Notes	31 December 2006	31 December 2005
ASSETS			
1. Gold	1	310.75	277.45
2. Claims on foreign institutions denominated in foreign currency		14,613.86	10,680.17
2.1. Receivables from the IMF	2	0.40	0.29
2.2. Deposits, securities and other investments denominated in foreign currency	3	14,613.46	10,679.88
3. Other assets		445.68	342.35
3.1. Intangible assets and property, plant and equipment	4	147.31	154.27
3.2. Investments into equity instruments	5	21.10	22.93
3.3. Accrued income and deferred expenditure	6	261.98	150.98
3.4. Sundry	7	15.29	14.17
Total		15,370.29	11,299.97
LIABILITIES			
4. Banknotes and coins in circulation	8	8,056.02	6,715.59
5. Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	9	2,591.15	2,209.78
6. Liabilities to other domestic institutions denominated in litas	10	130.40	121.65
7. Liabilities to foreign institutions denominated in litas		8.89	7.31
8. Liabilities to domestic institutions denominated in foreign currency	11	3,311.75	1,291.76
9. Liabilities to foreign institutions denominated in foreign currency	11	227.49	20.54
10. Items in the course of settlement		0.74	1.20
11. Other liabilities	12	17.84	16.51
11.1. Off-balance sheet instruments revaluation differences		–	7.93
11.2. Accrued expenditure and deferred income		13.04	3.26
11.3. Sundry		4.80	5.32
12. Revaluation accounts	13	122.90	90.72
13. Capital	14	761.32	697.72
13.1. Authorised capital		164.83	133.03
13.2. Reserve capital		596.49	564.69
14. Profit for the year	24	141.79	127.19
Total		15,370.29	11,299.97

PROFIT (LOSS) STATEMENT OF THE BANK OF LITHUANIA


LTL million

	Notes	2006	2005
Interest income	15	350.12	223.12
Interest expense	16	(66.79)	(29.81)
1. Net interest income		283.33	193.31
Realised gains (losses) arising from financial operations	17	(40.11)	11.97
Unrealised losses from revaluation	18	(26.65)	(23.20)
2. Net result of financial operations and revaluation losses		(66.76)	(11.23)
Commissions and fees income		7.01	7.94
Commissions and fees expense		(1.70)	(1.35)
3. Net commissions and fees income	19	5.31	6.59
4. Dividend income	5	2.45	2.17
5. Other income	20	2.01	23.29
NET INCOME		226.34	214.13
6. Staff costs	21	(50.30)	(49.80)
7. Administrative expenses	22	(18.05)	(15.20)
8. Assets depreciation and amortisation	4	(12.44)	(12.78)
9. Banknote and coin production and circulation expenses	23	(3.76)	(9.16)
PROFIT FOR THE YEAR	24	141.79	127.19

The accompanying explanatory notes are an integral part of these Financial Statements.

The 2006 Annual Financial Statements of the Bank of Lithuania were approved on 23 March 2007 by Resolution No. 29 of the Board of the Bank of Lithuania.

Chairman of the Board



Reinoldijus Šarkinas

EXPLANATORY NOTES TO THE FINANCIAL STATEMENTS OF THE BANK OF LITHUANIA

MAIN OBJECTIVE AND FUNCTIONS OF THE BANK OF LITHUANIA

The primary objective of the Bank of Lithuania is to maintain price stability.

The functions of the Bank of Lithuania are the following:

- issuing the currency of the Republic of Lithuania, formulating and implementing monetary policy, determining the litas exchange rate regulation system and announcing the official exchange rate of the litas;
- managing, using and disposing of the foreign reserves of the Bank of Lithuania;
- acting as a State Treasury agent;
- in the manner and cases established by laws and other legal acts, issuing and revoking licenses for credit institutions of the Republic of Lithuania as well as branches of credit institutions of foreign states, and supervising the activities thereof; also performing other functions related to the activities of credit institutions, established by laws;
- establishing principles and procedures for financial accounting and reporting of credit institutions of the Republic of Lithuania and branches of credit institutions of foreign states operating in the Republic of Lithuania;
- encouraging stable and efficient operation of payment and securities settlement systems;
- collecting monetary, banking and balance of payments statistics, as well as Lithuanian financial and related statistical data, implementing standards for the collection, reporting and publishing of said statistics and compiling the Balance of Payments of the Republic of Lithuania.

Subsequent to Lithuania's accession to the European Union as of 1 May 2004, the Bank of Lithuania became a member of the European System of Central Banks (ESCB). Starting from 28 June 2004 Lithuania is a participant in the Exchange Rate Mechanism II.

BASIS FOR PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The Bank of Lithuania prepares its Annual Financial Statements pursuant to Article 49 of the Law on the Bank of Lithuania.

The financial accounting of the Bank of Lithuania is managed and the Annual Financial Statements are prepared in accordance with the Law on the Bank of Lithuania, other legislation of the Republic of Lithuania applicable to the Bank of Lithuania and in accordance with the provisions set forth in the Bank's internal accounting policies being in line with the accounting and financial reporting rules established by the European Central Bank (ECB) for the national central banks participating in the European System of Central Banks (ESCB)¹, to the extent that such rules are applicable within a national central bank of the Member State which has not yet adopted the euro. The Bank of Lithuania follows the assessment principles of the International Financial Reporting Standards adopted by the EU in those areas of accounting and financial reporting that are not regulated by the Bank of Lithuania accounting policy and in cases of absence of the ECB requirements or instructions pertaining to a respective area.

Following the principles of consistency and comparability, the respective comparative financial data for 2005 have been presented.

¹Guideline of the ECB of 5 December 2002 on the legal framework for accounting and financial reporting in the European System of Central Banks (ECB/2002/10).

ACCOUNTING POLICY

GENERAL PRINCIPLES

In managing financial accounting and drawing up the financial statements, the Bank of Lithuania observes the following accounting principles: economic reality and transparency, prudence, materiality, going concern, accrual, consistency and comparability.

Gold, debt securities and other on-balance sheet and (or) off-balance sheet foreign reserves assets and liabilities denominated in foreign currency ("financial items") are recorded in the Financial Statements at market prices.

Official exchange rates of the Litas and the main foreign currencies quoted by the Bank of Lithuania

Litas (LTL) per unit

Currency	Code	31 December 2006	31 December 2005
Euro	EUR	3.4528	3.4528
US Dollar	USD	2.6304	2.9102
100 Japanese Yen	JPY	2.2153	2.4698
Special Drawing Rights (SDR)	XDR	3.9557	4.1753

Transactions in financial assets and financial liabilities are recorded in the on-balance sheet and off-balance sheet accounts at acquisition cost on the transaction settlement date.

Revaluation results arising from revaluation of gold holdings, each security issue (on an item-by-item basis according to the same ISIN number) and each foreign currency (on a currency-by-currency basis) are accounted for separately. Unrealised revaluation losses (arising at the year-end from the revaluation of gold, each security issue or each foreign currency at market price and the official exchange rate when exceeding previous corresponding revaluation gains) are taken to the profit and loss account and cannot be reversed in subsequent years against new revaluation gains relating to the same financial item or netted against unrealised revaluation gains related to another individual financial item.

GOLD

Gold holdings are revalued on the last business day of each month at market price at the London bullion market. Gold revaluation gains or losses are calculated on the basis of the gold mid-market price in US dollars per one Troy ounce, translated into litas at the exchange rate of the litas against the US dollar on the revaluation day.

No distinction is made between price and currency revaluation differences recorded in the revaluation account for gold, which is held as part of foreign reserves.

In the event of recognition of unrealised revaluation losses on gold at year-end, the gold average price is correspondingly adjusted to the gold market price prevailing on the last business day of the financial year.

FOREIGN CURRENCY TRANSACTIONS

On-balance sheet and off-balance sheet foreign currency financial items are revalued on a currency-by-currency basis on each business day at the official exchange rate of that day, and the revaluation gains or losses related to the respective foreign currency (including SDRs) are recorded in separate revaluation accounts.

Revaluation of accrued interest income and expenses adjusts the respective balance sheet and income/expense accounts.

The average rate of the net foreign currency position is recalculated if the operations carried out during the day (including the ones shown in off-balance sheet accounts) increase the net position of that currency.

The realised result of foreign currency is calculated if the operations carried out during the day in a certain foreign currency decrease the net position of that currency.

In the event of recognition of unrealised revaluation losses on any foreign currency at year-end, the average rate of that currency position is correspondingly adjusted to the official exchange rate on the last business day of the financial year.

Income and expenses in foreign currencies are translated at the official exchange rate on the date on which they were recorded in the accounts.

SECURITIES

Debt securities are recognised in the accounts at acquisition cost. Coupon income purchased is treated as a separate item and is not included in the cost of the asset.

Securities held as part of foreign reserves are revalued at market price on the last business day on a monthly basis.

Revaluation gains or losses arising from securities price movements are accounted for separately on an item-by-item basis.

The difference between the security acquisition cost and its nominal value – premium or discount – is recognised as income or expenses over the remaining maturity of the securities.

Discounts or premiums arising on zero-coupon securities are amortised according to the Internal Rate of Return method, on coupon securities, according to the straight-line method.

If unrealised revaluation losses from revaluation of each securities issue are recognised as expenses at the end of the financial year, the average price of such securities is adjusted according to their market price on the last business day of the financial year.

Long-term investments in equities held for the Bank's specific purpose are recorded at acquisition cost.

The value of zero-coupon debt securities taken over as foreclosed assets is adjusted by deducting diminution of the value.

REVERSE TRANSACTIONS

Repurchase agreement is recorded as collateralised inward deposits: the commitment to repay funds is recorded on the liabilities side of the balance sheet, while the financial asset that has been given as collateral (sold and repurchased under this agreement) remains on the asset side of the balance sheet for the period of the transaction.

Reverse repurchase agreement is recorded as a collateralised outward loan to the other party of the agreement on the asset side of the balance sheet. The collateral acquired under this type of agreement for the transaction period is not shown in the balance sheet and is not revalued.

The difference in the value between the purchase and repurchase price of the collateral acquired under repurchase and reverse repurchase agreements is recognised as interest income or expense on a straight-line basis over the transaction period.

LOANS

Loans granted by the Bank are recorded at their nominal value and their balances are presented at net value, i.e. less diminution of the value. Diminution of the value is recognised as expense. The restored amount of the value diminution is recognised as income.

Diminution of the value of loans overtaken for satisfying part of claims and issued to the Bank employees is calculated for the year-end situation on a yearly basis.

INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets and property, plant and equipment include such assets whose acquisition cost (including VAT) is not less than LTL 500 and whose useful life is longer than one year. Intangible assets and property, plant and equipment are recorded in the balance sheet at cost less accumulated depreciation (amortisation). Depreciation (amortisation) is calculated on a straight-line basis over the expected useful life of assets.

Depreciation (amortisation) rates of intangible assets and property, plant and equipment

Assets	Annual rate, %
Buildings and structures	2.5–10
Cash calculation and computer equipment	10–50
Software	33–100
Vehicles	20
Furniture, office equipment and other inventory	5–50

If there are signs that the market value of real estate is declining more rapidly than expected when estimating the useful life of the asset, then at the end of the financial year the value of such assets is adjusted for recognised losses arising because of their significant impairment.

BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation are presented at nominal value as liabilities in the balance sheet. The cost of printing banknotes and minting coins, as well as other expenses associated with the issue of the national currency into circulation, are recorded as expenses when incurred, irrespective of when the coins and banknotes were put into circulation.

OFF-BALANCE SHEET INSTRUMENTS

Foreign currency forward sales and purchases accounted in off-balance sheet accounts under foreign exchange swap contracts are included in the net foreign currency position for the purpose of calculating foreign exchange gains and losses. The change in value arising from the difference in spot and forward rates of the transaction is recognised as interest payable or interest receivable on a straight-line basis over the transaction period.

Daily changes in the variation margin of interest rate futures are considered realised income or expense.

RECOGNITION OF INCOME AND EXPENSES

Interest income and expenses (including premiums and discounts of securities) related to financial assets and liabilities are accrued on a daily basis and are recorded in profit and loss

accounts on the last business day of each month, regardless of the date when it was received or incurred. Other income earned and expenses incurred within the current year are recorded in the accounts on an annual basis.

Realised income and expenses are taken to the profit and loss accounts on the date on which they are settled.

Unrealised gains are not recognised as income. Unrealised losses are recognised as an expense at year-end when exceeding previous revaluation gains are registered in the corresponding revaluation account.

The average price and (or) average rate method is used in order to compute the acquisition costs for gold, securities and foreign currency instruments. Such acquisition costs are used for the purpose of calculating of realised and unrealised results.

POST-BALANCE SHEET EVENTS

Annual financial statements are adjusted for post-balance sheet events that occur between the annual balance sheet date (i.e. the last day of the reporting year) and the date on which financial statements are approved by the Board of the Bank of Lithuania, if these events depend on circumstances that occurred before the balance sheet day (i.e. the last day of the financial year) and therefore should have affected the data presented in the financial statements at the balance sheet date.

No adjustment is made for the data of annual financial statements of post-balance sheet events that depend on circumstances which affect the condition of the data of annual financial statements later than the balance sheet day. Events which are of such importance that their non-disclosure would affect the ability of users of the financial statements to make proper evaluations and decisions are disclosed in the Explanatory Notes to the Annual Financial Statements.

RISK AND ITS MANAGEMENT

In 2006 the risk management project which established the unanimous risk management system in the Bank of Lithuania was introduced. This system ensures permanent analysis and refinement of the risk management process and allows the structural management of risk. Each activity of the Bank of Lithuania is periodically analysed and assessed during the risk and control self-assessment sessions. The incident registration database created in the Bank of Lithuania assists in analysing and assessing of the risk and control. Referring to the financial risk, the main object of risk is the foreign reserves of the Bank of Lithuania that as at 31 December 2006 accounted for about 97 per cent of the total assets of the Bank of Lithuania.

In managing foreign reserves the Bank of Lithuania is exposed to market, credit, liquidity, settlement and operational risks. These risks are managed by an established broad system of limits for risk exposures and other means aimed at reducing risks.

The main risk faced by the Bank of Lithuania in foreign reserve management that has the strongest influence on financial results is market risk. Market risk consists of exchange rate risk and interest rate risk.

In order to reduce the exchange rate risk, the major part of foreign reserves not related to liabilities in foreign currencies is invested in the anchor currency. The part of foreign reserves related to liabilities is invested in the currency of the liabilities (see Note 25).

The Bank of Lithuania uses the indicator of modified duration (MD) as the main tool for managing interest rate risk. Interest rate risk is managed by setting benchmarks to each portfolio

of foreign reserves, its MD and allowed deviations of portfolio real investment MD from the MD of the benchmarks. The “value-at-risk” (VAR) method is also used as an instrument for interest rate risk management.

Credit risk is managed by establishing strict financial reliability requirements to issuers and counterparties. In order to reduce credit risk, investment limits are established for issuers, counterparties and their groups.

Foreign reserve liquidity risk is managed by setting liquidity ratios and liquidity requirements for financial instruments.

Various correspondent account management techniques are applied for managing settlement risk, such as payment queuing, matching of debit and credit turnovers. These measures facilitate reduction of loss due to settlement defaults by counterparties.

Operational risk is managed on the basis of clear procedural regulations.

NOTES

Note 1. Gold

	31 December 2006	31 December 2005
Gold holdings in		
Troy ounces	185,840.53	185,840.53
Kilograms	5,780.29	5,780.29
Price of one Troy ounce, USD	635.70	513.00
Value of gold, LTL million	310.75	277.45

All gold as at 31 December 2006 was held as non-invested gold reserve.

Note 2. Receivables from the International Monetary Fund

The Bank of Lithuania performs the function of depository of International Monetary Fund (IMF) funds.

The net reserve position in the IMF belongs to the Republic of Lithuania, which has been a member of the IMF since 1992.

The Republic of Lithuania’s Quota (SDR 144.20 million) has not changed since 1999. A part of this Quota (25%) was paid in SDR and residual part was paid in non-marketable and non-interest bearing Government promissory note denominated in the national currency. The value of these Government securities issued in favour of the IMF as at 31 December 2006 amounted to SDR 143.67 million.

Net Reserve Position in the IMF

SDR million

	31 December 2006	31 December 2005
State Quota of IMF membership (total value)	144.20	144.20
IMF claims corresponding to Government promissory note in litas	(143.67)	(143.67)
IMF funds in accounts with the Bank of Lithuania in litas	(0.50)	(0.51)
Net reserve position in the IMF	0.03	0.02

Funds Receivable from the IMF

LTL million

	31 December 2006	31 December 2005
Net reserve position in the IMF	0.14	0.06
Balance in SDR account with the IMF	0.26	0.23
Total	0.40	0.29

Note 3. Deposits, Securities and Other Investments Denominated in Foreign Currency

LTL million

	31 December 2006	31 December 2005
Correspondent accounts with foreign banks	45.90	67.41
Fixed-term deposits with foreign banks	2,038.55	946.30
Debt securities	11,743.78	8,520.71
Reverse repurchase agreements	785.23	1,145.46
Total	14,613.46	10,679.88

In managing foreign reserves, investments into debt securities with a fixed interest rate are made. Breakdown of deposits, securities and other investments by currencies is shown in Note 25.

Breakdown of Deposits, Securities and Other Investments Denominated in Foreign Currency by Counterparties

LTL million

	31 December 2006	31 December 2005
EU Member States	13,439.34	9,389.59
International financial institutions	752.35	69.18
USA	254.15	180.78
Swiss Confederation	166.05	–
Japan	1.57	1,040.33
Total	14,613.46	10,679.88

Breakdown of Deposits, Securities and Other Investments Denominated in Foreign Currency by Maturity²

LTL million

	Demand	Up to 1 year	1–5 years	Over 5 years	Total
Deposits, securities and other investments denominated in foreign currency	66.65	11,795.55	2,710.19	41.07	14,613.46

²Contractual maturity is presented.

Note 4. Intangible Assets and Property, Plant and Equipment

LTL million

	Intangible assets	Property, plant and equipment				Total
		Buildings and construction in progress	Cash calculation and computer equipment (including non-assembled items)	Vehicles	Other property, plant and equipment	
Acquisition value as at 31 December 2005	12.75	152.20	58.65	6.08	35.38	265.06
Additions in 2006	0.51	0.08	3.70	0.12	1.10	5.51
Disposals in 2006	(0.01)	–	(0.81)	(0.36)	(2.95)	(4.13)
Redistribution in 2006	–	–	(0.02)	–	0.02	–
Acquisition value as at 31 December 2006	13.25	152.28	61.52	5.84	33.55	266.44
Accrued depreciation as at 31 December 2005	(11.94)	(20.80)	(45.05)	(4.62)	(28.38)	(110.79)
Depreciation in 2006	(0.90)	(3.57)	(5.66)	(0.51)	(1.80)	(12.44)
Written-off depreciation in 2006	0.01	–	0.81	0.36	2.92	4.10
Accrued depreciation as at 31 December 2006	(12.83)	(24.37)	(49.90)	(4.77)	(27.26)	(119.13)
Net book value as at 31 December 2006	0.42	127.91	11.62	1.07	6.29	147.31
Net book value as at 31 December 2005	0.81	131.40	13.60	1.46	7.00	154.27

Note 5. Investments into Equity Instruments

LTL million

	31 December 2006	31 December 2005
European Central Bank	5.95	5.95
Bank for International Settlements	11.51	11.51
Central Securities Depository of Lithuania	3.63	3.63
Lithuanian Mint	–	1.83
SWIFT	0.01	0.01
Total	21.10	22.93

On 1 May 2004 Lithuania joined the EU and consequently the Bank of Lithuania became a member of the ESCB. In accordance with Article 28 of the Statute of the ESCB and the ECB the Bank of Lithuania became the subscriber of the capital of the ECB. Sub-item "Investments into equity instruments" represents the Bank of Lithuania participating interest in the ECB. Subscriptions depend on shares which are fixed in accordance with Article 29.3 of the Statute of the ESCB and which must be adjusted every five years. The share of Lithuania in the ECB's capital is 0.4425 percent and was calculated in accordance with Article 29 of the Statute of the ESCB, on the basis of population and GDP data of the EU Member States provided by the European Commission. As Lithuania does not participate in the euro area, the transitional provisions of Article 48 of the Statute apply. Consequently, the Bank of Lithuania was required to pay-up a minimal contribution of 7 percent of its subscribed capital to the ECB upon entry to the ESCB on 1 May 2004 amounting to EUR 1.72 million.

The Bank of Lithuania is a member of the Bank for International Settlements (BIS) with representation and voting rights equal to 1,070 shares with an acquisition cost of LTL 11.51

million and the nominal value of SDR 5,000 per share. The Bank of Lithuania has paid up 25 per cent of the value of these shares. The Bank of Lithuania received dividends of LTL 1.05 million for these BIS shares in 2006 (LTL 0.98 million in 2005).

The Bank of Lithuania owns 60 per cent of the shares of the Central Securities Depository of Lithuania with an acquisition cost of LTL 3.63 million. In 2006 the Bank of Lithuania received dividends of LTL 1.40 million for them (LTL 1.19 million in 2005).

After the reorganisation of the Public Company Lithuanian Mint in 2006 into a private limited company, whose shares by property rights are owned by the State, the LTL 1.83 million non-cash contribution paid in 1998 into the authorised capital of the then Public Company, the founding rights of which were granted to the Bank of Lithuania as from 1995, was written-off from the Bank of Lithuania balance sheet.

The Bank of Lithuania holds one SWIFT share.

Note 6. Accrued Income and Deferred Expenditure

LTL million

	31 December 2006	31 December 2005
Debt securities coupon payment purchased	123.21	73.34
Accrued interest income	136.45	75.00
Accrued debt securities coupon	135.07	73.93
Interest on reverse repurchase agreements	0.48	0.01
Interest from off-balance sheet instruments	–	0.87
Other accrued interest income	0.90	0.19
Other accrued income	0.94	0.82
Deferred expenses	1.38	1.82
Total	261.98	150.98

Note 7. Sundry

LTL million

	31 December 2006	31 December 2005
Loans to the staff of the Bank of Lithuania	8.45	9.39
Advances for services to be rendered	3.24	0.02
Foreclosed assets	1.38	2.60
Other assets	2.22	2.16
Total	15.29	14.17

Loans issued to the staff of the Bank of Lithuania for house purchase or repairs amounted to LTL 7.94 million (LTL 8.76 million in 2005), and the balance of consumer loans was LTL 0.51 million (LTL 0.63 million in 2005).

Foreclosed assets consist of non-interest bearing Lithuanian Government debt securities denominated in the national currency of one issue with various maturities (net value of LTL 1.31 million) and the balance of the rights of claim to the debts of natural and legal persons taken over for satisfying part of claims on loans granted by the Bank of Lithuania (LTL 0.07 million). Redemption of securities taken over is planned to take place in 2007 (LTL 1.35 million was redeemed in 2006).

Other assets consist of inventories amounting to LTL 2.15 million (LTL 2.09 million in 2005), accounts with commercial banks in foreign currency amounting to LTL 0.04 million (LTL 0.04 million in 2005) and other claims amounting to LTL 0.03 million (LTL 0.03 million in 2005).

Note 8. Banknotes and Coins in Circulation

Banknotes and coins in circulation are litas and centas put in circulation by the Bank of Lithuania. In 2006, the amount of cash put into circulation made up LTL 3,005.33 million (LTL 2,851.37 million in 2005), and the amount withdrawn from circulation totalled to LTL 1,664.90 million (LTL 1,730.35 million in 2005).

Banknotes and Coins in Circulation

LTL million

	31 December 2006	31 December 2005
Banknotes	7,902.95	6,581.06
Coins	153.07	134.53
Total	8,056.02	6,715.59

The Bank of Lithuania issues commemorative (including gold and silver) coins.

Note 9. Liabilities to Domestic Credit Institutions Related to Monetary Policy Operations Denominated in Lit

This item consists of the holdings of required reserves held by commercial banks in their correspondent accounts with the Bank of Lithuania. The Bank of Lithuania pays interest for the required reserves held by commercial banks (see Note 16) by applying marginal interest rates of the main Eurosystem refinancing operations set by the ECB.

Note 10. Liabilities to Other Domestic Institutions Denominated in Lit

LTL million

	31 December 2006	31 December 2005
Liabilities to Government institutions	121.15	110.82
Liabilities to other domestic institutions	9.25	10.83
Total	130.40	121.65

Note 11. Liabilities Denominated in Foreign Currency

Liabilities to Domestic Institutions Denominated in Foreign Currency

LTL million

	31 December 2006	31 December 2005
Fixed-term deposits of Government institutions	2,799.48	562.03
Balances of accounts of Government institutions	512.27	729.73
Total	3,311.75	1,291.76

The Bank of Lithuania pays variable interest rates for the balances of accounts in foreign currency.

Liabilities to Foreign Institutions Denominated in Foreign Currency

These liabilities consisted of the balances of accounts of the EU institutions amounting to LTL 227.49 million (LTL 20.54 million in 2005).

Breakdown of Liabilities Denominated in Foreign Currency by Maturity

LTL million

	Demand	Up to 1 year	Without term	Total
Liabilities denominated in foreign currency	739.62	2,799.48	0.14	3,539.24

Note 12. Other Liabilities

LTL million

	31 December 2006	31 December 2005
Off-balance sheet instruments revaluation differences	–	7.93
Accrued expenditure and deferred income	13.04	3.26
Accrued interest expenses	9.69	0.43
Other accrued expenses	3.15	2.62
Deferred income	0.20	0.21
Sundry	4.80	5.32
Balances of accounts	3.91	3.67
Subsidies	0.73	1.46
Other payables	0.16	0.19
Total	17.84	16.51

Note 13. Revaluation Accounts

LTL million

	31 December 2006	31 December 2005
Revaluation accounts		
Gold	122.82	89.51
Securities	0.05	1.16
Foreign currency	0.03	0.05
Total	122.90	90.72

The balance accounted for in revaluation accounts represents unrealised gains arising from revaluation of gold, securities and foreign currency.

Unrealised revaluation losses when exceeding previous revaluation gains registered in corresponding revaluation accounts at the end of the year 2006 were recognised as expenses (see Note 18).

Note 14. Capital

LTL million

	31 December 2005	Increase	31 December 2006
Capital			
Authorised capital	133.03	31.80	164.83
Reserve capital	564.69	31.80	596.49
Total	697.72	63.60	761.32

Note 15. Interest Income

LTL million

	2006	2005
Interest income on:		
Investment in debt securities	299.83	195.22
Fixed-term deposits in foreign banks	28.59	7.10
Reverse repurchase agreements	9.83	3.05
Off-balance sheet instruments (swaps)	9.46	15.72
Balances of correspondent accounts with foreign banks	2.08	1.55
Other interest income	0.33	0.48
Total	350.12	223.12

The average interest rate on investments in foreign currency was 2.44 per cent in 2006 (1.99 per cent in 2005).

Note 16. Interest Expense

LTL million

	2006	2005
Interest expense on:		
Fixed-term deposits of Government institutions	39.94	21.99
Balances of accounts of Government institutions	5.62	4.21
Interest on required reserves of credit institutions	19.72	3.22
Liabilities related to repurchase agreements	1.51	0.39
Total	66.79	29.81

The average interest rate on liabilities in foreign currency was 2.62 per cent in 2006 (1.76 per cent in 2005).

Note 17. Realised Gains (Losses) Arising from Financial Operations

LTL million

	2006	2005
Realised gains (losses) from realisation of:		
Securities	(46.24)	16.25
Foreign currency	0.21	0.56
Off-balance sheet instruments (interest rate futures)	5.92	(4.84)
Total	(40.11)	11.97

Note 18. Unrealised Losses from Revaluation

LTL million

	2006	2005
Unrealised losses from revaluation of		
Securities	26.65	23.03
Foreign currency	0.00	0.17
Total	26.65	23.20

Note 19. Net Commissions and Fees Income

LTL million

	2006	2005
Income from:		
Settlement services	5.90	5.66
Sales of numismatic valuables	0.39	1.62
Usage of Loan Risk Database	0.30	0.19
Auctions of securities	0.16	0.20
Management of the World Bank loan	0.12	0.11
Other services	0.14	0.16
Total	7.01	7.94
Fee expense for international banking operations	(1.70)	(1.35)
Net commissions and fees income	5.31	6.59

Note 20. Other Income

LTL million

	2006	2005
Income for rent of assets	1.41	1.35
Income from the restored value diminution of assets	0.18	20.93
Other miscellaneous income	0.42	1.01
Total	2.01	23.29

Note 21. Staff Costs

LTL million

	2006	2005
Expenses on wages and salaries	38.45	38.06
to the members of the Board	1.02	0.94
to the heads of structural divisions	2.20	2.21
to other staff of the Bank of Lithuania	35.23	34.91
Contributions to State Social Insurance Fund	11.85	11.74
Total	50.30	49.80

The Board of the Bank of Lithuania consists of Chairman of the Board of the Bank of Lithuania, two Deputy Chairmen and two Board Members. At the end of 2006 eleven departments, six independent divisions and two branches carried out their activities at the Bank. The total number of employees was 837 (842 employees in 2005).

Note 22. Administrative Expenses

LTL million

	2006	2005
Expenses		
Maintenance expenses	6.85	6.47
Information subscriptions expenses	1.67	1.63
Business trips	1.76	1.75
Mail and communication	1.63	1.77
Training of staff	1.35	1.22
Public relations	0.85	0.83
Library acquisitions and press subscriptions	0.18	0.17
Other	3.76	1.36
Total	18.05	15.20

Expenses from written-off non-cash contribution into the authorised capital of the Joint Stock Company Lithuanian Mint (LTL 1.83 million) are attributed to the item "Other".

Note 23. Banknote and Coin Production and Circulation Expenses

LTL million

	2006	2005
Coin production expenses	3.45	8.59
Cash circulation expenses	0.31	0.57
Total	3.76	9.16

Note 24. Distribution of the Profit of the Bank of Lithuania

In accordance with the requirements of Article 23 of the Law on the Bank of Lithuania on the allocation of the profit of the Bank of Lithuania, the profit for the financial year of 2006 is allocated by paying a 50 per cent contribution of the profit for the financial year to the state budget, the remaining part of the profit for the financial year being allocated in equal parts to the authorised capital of the Bank of Lithuania (until it reaches LTL 200 million provided for in the Law on the Bank of Lithuania) and the reserve capital.

LTL

	2006	2005	2004
Transfer to the state budget	(70,895,684)	(63,596,173)	(66,061,771)
Allocation to the authorised capital	(35,171,028)	(31,798,087)	(33,030,885)
Allocation to the reserve capital	(35,724,656)	(31,798,087)	(33,030,885)

Note 25. Assets and Liabilities of the Bank of Lithuania by Currencies

LTL million

	LTL	EUR	USD	JPY	XDR	XAU	Other	Total
31 December 2006								
ASSETS								
Gold	–	–	–	–	–	310.75	–	310.75
Claims on foreign institutions denominated in foreign currency	–	12,351.64	2,259.92	1.63	0.40	–	0.27	14,613.86
Receivables from the IMF	–	–	–	–	0.40	–	–	0.40
Debt securities	–	11,219.09	524.69	–	–	–	–	11,743.78
Deposits and other investments	–	1,132.55	1,735.23	1.63	–	–	0.27	2,869.68
Other assets	176.81	267.91	0.96	–	–	–	–	445.68
Total assets	176.81	12,619.55	2,260.88	1.63	0.40	310.75	0.27	15,370.29
LIABILITIES								
Banknotes and coins in circulation	8,056.02	–	–	–	–	–	–	8,056.02
Liabilities to domestic credit institutions related to monetary policy operations denominated in litas	2,591.15	–	–	–	–	–	–	2,591.15
Liabilities to other domestic institutions denominated in litas	130.40	–	–	–	–	–	–	130.40
Liabilities to foreign institutions denominated in litas	8.89	–	–	–	–	–	–	8.89
Liabilities to domestic institutions denominated in foreign currency	–	1,053.16	2,256.79	1.63	0.16	–	0.01	3,311.75
Liabilities to foreign institutions denominated in foreign currency	–	227.49	–	–	–	–	–	227.49
Items in the course of settlement	0.74	–	–	–	–	–	–	0.74
Other liabilities	7.37	5.88	4.59	–	–	–	–	17.84
Revaluation accounts	122.85	0.05	–	–	–	–	–	122.90
Capital	761.32	–	–	–	–	–	–	761.32
Profit for the year	141.79	–	–	–	–	–	–	141.79
Total liabilities	11,820.53	1,286.58	2,261.38	1.63	0.16	–	0.01	15,370.29
NET BALANCE POSITION	(11,643.72)	11,332.97	(0.50)	0.00	0.24	310.75	0.26	0.00
31 December 2005								
Total assets	187.86	9,787.12	4.46	1,042.34	0.29	277.45	0.45	11,299.97
Total liabilities	9,984.47	1,306.66	6.49	2.01	0.15	–	0.19	11,299.97
NET BALANCE POSITION	(9,796.61)	8,480.46	(2.03)	1,040.33	0.14	277.45	0.26	0.00